

~~SECRET~~OCA 87-5579
4 November 1987

MEMORANDUM FOR: The Director 25X1

FROM: David D. Gries
Director of Congressional Affairs

SUBJECT: Your Breakfast Meeting on 5 November with
Senator Bill Bradley 25X1

You are scheduled to meet with Senator Bill Bradley (D., NJ) on 5 November at 8:15 a.m. for breakfast in the Director's Dining Room. Accompanying the Senator will be John Despres, his designee on the Senate Intelligence Committee. Joining you will be Bob Gates, Dick Kerr, Evan Hineman, Doug MacEachin, and myself. 25X1

In addition to service on the Senate Intelligence Committee, Senator Bradley is Chairman of the Water and Power Subcommittee of the Energy and Natural Resources Committee and Chairman of the International Debt Subcommittee of the Finance Committee. He also serves on the Special Committee on Aging. Senator Bradley is a very active member of the Intelligence Committee and has demonstrated a keen interest in a diverse number of subjects, including Central America, Mexico, the Third World debt, the Soviet Union, counterintelligence and China. The Senator or Despres has received briefings from the Agency on all of these subjects. 25X1

Principal Talking Points:

~~SECRET~~*B-808-1R*

Page Denied

Next 7 Page(s) In Document Denied

BILL BRADLEY
NEW JERSEY

United States Senate

WASHINGTON, DC 20510

COMMITTEES:
FINANCE
ENERGY AND
NATURAL RESOURCES
SPECIAL COMMITTEE ON
AGING
SELECT COMMITTEE
ON INTELLIGENCE

SENATOR BILL BRADLEY'S ADDRESS
TO
THE INSTITUTE FOR EAST-WEST SECURITY STUDIES CONFERENCE
ON
THE IMPLICATIONS OF SOVIET NEW THINKING
OCTOBER 10, 1987

Today is a time of change in East-West relations. Opportunity exists to lower tensions and to reduce the risk of a confrontation that could lead us to nuclear war. The new Gorbachev leadership in Moscow talks about "radical reforms" and even a "historic restructuring" of the Soviet system; about the need for "new thinking," "mutual security," a "constructive direction in international relations," and the need to "exclude the possibility of a surprise attack." These are hopeful phrases describing a potentially historic process underway in the Soviet Union.

Before Mikhail Gorbachev became General Secretary, all but the most optimistic Americans would have given low odds to significantly improved relations with the Soviet Union. We saw a nation, sinking under the weight of rigid dogmas, economic stagnation, and official corruption, while engaged in a massive military buildup. The Soviet military spanned the globe with a growing navy, a five million person military, and a nuclear force anchored by the biggest, most destructive missiles in the world.

Before Gorbachev, the Soviet leadership seemed paranoid, unwilling to face its history -- a history that Europeans and Americans cannot forget:

- 1939 -- the Nazi-Soviet pact and the invasion of Finland;
- 1948 -- the Berlin Blockade;
- 1953 -- the armed repression of East Germany;
- 1956 -- the invasion of Hungary;
- 1968 -- the invasion of Czechoslovakia;
- 1979 -- the invasion of Afghanistan;
- 1981 -- the imposition of martial law in Poland.

The Cold War gathered momentum when the Soviet Union subverted friendly, but independent governments in Eastern Europe. It intensified because of Western conviction that

- 2 -

Stalin's pursuit of security would not stop until all Europe was under his control. Today the division of Europe finds tangible expression in the largest concentration of conventional military power the world has ever seen in peacetime, and it endures because of the differences in political values that are at the core of this conflict.

A society governed by a centralized, one-party state that insists on dictatorial control is inherently unstable. History teaches that instability and great military power are a dangerous combination.

Soviet officials have proposed a "new era" before, and we have had previous episodes of summitry and detente.

Remember 1955. The ebullient reformer Nikita Khrushchev is firmly in command and actively engaged in diplomacy toward the West -- a diplomacy that included disarmament negotiations, unilateral Soviet troop reduction, and the famous denunciation of Stalin. The world was eager to believe that the old Cold War was finally thawing and the Soviet military threat to Europe had passed. How rudely these illusions were shattered in 1956 by the Soviet invasion of Hungary.

Salvador Madariaga, the Spanish Chairman of the Disarmament Commission of the League of Nations, has observed in his memoirs, "Nations don't distrust each other because they're armed; they arm because they distrust each other. And, therefore, to want disarmament before a minimum of common agreement on fundamentals is as absurd as to want people to go undressed in Winter. Let the weather be warm and people will discard their clothes readily, and without committees to tell them to undress."

Since Mikhail Gorbachev took office in 1985, we have felt the warm winds of change again; is it too much to hope that the metaphoric warm weather that Madariaga talked about will arrive at last? Can we get more "agreement with the Soviet Union on fundamentals?"

General Secretary Gorbachev's emphasis on domestic reform is the single most important new fact in East-West relations. When he became General Secretary, annual rates of economic growth had fallen by more than half in 20 years. Of longer-term industrial and military importance, Soviet high technology lagged far behind the West. General Secretary Gorbachev saw that without the successful implementation of perestroika, the Soviet Union would continue to wane as an economic power in the 1990's and, eventually, begin to fade as a military superpower in the 21st century.

Internationally, at a time of military strength and domestic reform, the Gorbachev leadership proposes a stunning array of diplomatic and arms control proposals -- including some positions long advocated by the U.S. It says it favors American proposals to cut strategic forces by 50% and to ban all Intermediate-range Nuclear Forces. It calls for a nuclear-free Europe, and indeed, the elimination of all nuclear weapons within 15 years. It revives border talks with China, and discusses withdrawal from Afghanistan. It tries to mediate the Iran-Iraq war at the same time it calls for better relations

- 3 -

with Israel. And in 1988, General Secretary Gorbachev will be the first Soviet leader ever to visit Latin America. All the activity conveys an image of a decisive, flexible Soviet Union -- that of a peacemaker and world citizen, worthy of international respect.

So, here we are at the time when the West appears to be weary of the burden of defense, when abhorrence of nuclear weapons is growing, when European parochialism and American isolationism are on the upswing, and when arms control is increasingly perceived as the main means of ensuring NATO's security. Given this climate, how do we respond to this diverse and broad-based challenge from the Soviet Union?

Does Gorbachev's policy offer the West an opportunity? How do we test him to see if constructive change is possible?

To begin, we have to know what we want. General Secretary Gorbachev says he wants "mutual security," a "constructive direction in international relations," and a foreign policy "to a greater extent than ever before determined by domestic policy." What about us? First, we want a more open Soviet society with whom we have more agreement on fundamentals; one which has faced its past candidly; one which accepts differences in politics, culture, and religion as it shares more power with its people, including minority nationalities. Second, we want greater freedom for Soviet bloc nations, particularly in Eastern Europe, to restructure their own systems and their relations with the outside world. Third, we want more Soviet restraint in the developing World. Fourth, and most of all, we want a lessened prospect of war through a reduction in the conventional offensive military threat against Europe and through a reduction of nuclear arsenals, particularly Soviet counterforce capability.

Many people see the proposed INF treaty to eliminate hundreds of theater nuclear missiles on both sides of the NATO-Warsaw Pact line as the harbinger of a new era in East-West relations.

I, like all of you, hope for a future in which negotiation and mutual agreement to destroy military forces displaces confrontation and the arms race. I hope General Secretary Gorbachev will succeed in finding a new source of authority for the Soviet state -- one that doesn't derive from coercive Stalinist campaigns, or a Cold War view of the outside world as ever menacing and encircling; I hope the General Secretary will persuade the Soviet bureaucracy that it no longer makes sense to subordinate the people's desire for a better life to the military's obsession with security; I hope he will convince his elites that Soviet security and prestige depend on sustaining growth and on unleashing popular initiatives.

But hope is not enough. For the West to be confident that Gorbachev brings the prospect of a new day we will need to see tangible progress in reducing military threats and political repression. We can't let perestroika, glasnost, and summitry, however encouraging, obscure the fact that the issues that have troubled our relationship with the Soviets in the past, seem to be unchanged. At the same time we must be flexible enough to

- 4 -

seize new opportunities, and to have antennae sensitive enough to hear the soft inner voice of the Soviet Union as well as to pick up its threats.

We need an imaginative yet tough-minded Western strategy. Without it, we will be divided and vulnerable, responding piecemeal, unable to maximize the inherent strength of our alliance. The core of such a strategy must deal seriously with the disparity between weapon inventories and military capabilities of opposing forces in Central Europe. It must recognize and use our economic vitality as a strategic asset, and it must see that our ultimate strength lies in what we believe -- our values.

1.

About the disparity in conventional forces General Secretary Gorbachev said in mid-September, "...if an imbalance or disproportion exist let us remove them." A Western strategy toward the Soviet Union must reflect unity and be creative enough to test this expressed willingness to redress the Soviet imbalance in conventional forces in Europe, as we also reduce our nuclear arsenals.

Based on the best information available the Soviets have built up alarming advantages in their conventional forces over the last two decades. In the mid-1960's, conventional weaponry deployed with active units by NATO and the Warsaw Pact were roughly comparable in the forward areas of Central Europe. It would have taken the Soviets months to mobilize enough reserves and reinforcements for a decisive offensive. This ensured clear warning and ample time for NATO to respond effectively.

Since then, the Soviet Union and its partners in the Warsaw Pact have added more than 40,000 tanks, artillery, anti-tank missiles, attack helicopters and other conventional weapons systems. This increase alone is more than all the weapons that NATO had in Europe in 1965. Near NATO's borders the Warsaw Pact has raised its superiority in tanks to over two-to-one, and in artillery to about three-to-one. It has even gained numerical superiority in anti-tank missile launchers and attack helicopters.

Moreover, Soviet modernization of its weapons in Europe has made them comparable in quality to most of those in the West and by enlarging its inventories, it has cut the time required to mobilize an offensive force from months to weeks.

In addition, Soviet military doctrine has reflected this increasingly offensive focus. Not only do Soviet forces outnumber the West in weaponry but they practice using it in a profoundly threatening way.

Due to these trends in Soviet numbers, quality and doctrine, NATO cannot rely as heavily as before on technological superiority to offset numerical deficiencies in its conventional defenses. Nor can it count on long, clear warning of an offensive buildup on its eastern borders.

- 5 -

To cope with these problems, NATO relies on a strategy of "flexible response" based on its readiness and ability to use nuclear weapons to resist aggression in Europe. Let's be honest about the problem. As long as the Soviet Union deploys huge offensive conventional forces, especially their modern tank armies, in the center of Europe, the West must preserve the option of a nuclear response.

NATO could minimize this dilemma by building up its conventional defenses. But the economic burdens of strengthening conventional defenses are enormous.

Reducing and reconfiguring Soviet offensive forces in Central Europe is the only other way to decrease the risk of a confrontation that could lead to nuclear war. By restructuring Soviet offensive power in Europe the Soviets can demonstrate that they are serious about "mutual security" and a "constructive direction in international relations." It is also a way for General Secretary Gorbachev to make good on his admonition that "military doctrines must be purely of a defensive nature." After all, if his emphasis is truly on "domestic policy" in the Soviet Union, how can he see any legitimate need for such potentially menacing forces within a days' drive of Frankfurt, Paris, or Amsterdam?

How do we get the Soviet Union to reduce and reconfigure their forces?

Let NATO and the Warsaw Pact begin by discussing our respective military doctrines thoroughly and openly before our citizens. Then, let us take some confidence-building measures such as opening up our respective forces -- weapons as well as manpower -- for mutual scrutiny. And let's count them and see what the imbalances and disproportions are. Finally I would challenge the General Secretary to make good on his offer to remove the excess.

Last February General Secretary Gorbachev said he was prepared to go even further and he called for measures to "make it possible to lessen, or better still, altogether exclude the possibility of a surprise attack." The West should immediately follow up this offer with an open mind, searching vigorously for new ways to achieve longer and clearer warning of any Soviet mobilization in Central Europe. Joint actions worth exploring include monitoring and limiting troop movements, reviewing the status of equipment stock piles, and providing notification of impending military maneuvers and other exercises.

Asymmetries between us will continue, some of them inherent in the fact that the Soviet Union is so much closer to Germany than the U.S. and therefore more able to reinforce its forward positions in Europe. Even with these asymmetries, there are actions the Soviets could take to contribute to stability: pulling units out of Central Europe and simultaneously cutting the total size of its forces in Western Russia and Ukraine; reducing the manning levels of units; reducing the armor emphasis of Soviet forces; and giving NATO greater access to information about the readiness of Soviet forces.

Progress on these fronts would make nuclear war less likely by reducing the risk of any war in Europe. But, as long as NATO is needed to protect freedom in a divided Europe, NATO security will need the ultimate backing of nuclear deterrence.

- 6 -

Lenin said "Words are deeds." In a nuclear world, however, on a continent jammed with conventional weapons and competing ideologies, only deeds can "exclude the possibility of a surprise attack," and bring a genuine reduction in tension and a new basis for U.S.-Soviet relations.

2.

But, an effective Western strategy must have an economic as well as a military component. The Soviet Union's precarious economic circumstances and Gorbachev's domestic reform are the source of two new ironies. The first is that Gorbachev cannot accomplish his domestic priorities unless the West is doing well economically. To import technology he must raise cash by borrowing more from the West or by exporting more to the West. Whether he relies on Western capital markets or Western export markets, he will benefit from a healthy Western economy. So, a serious economic downturn could doom Gorbachev's modernization plans. This degree of economic interdependence is new. It challenges the fundamental principle of autarchy upon which Soviet security, military success, and political relations with the outside world have been based since the revolution. It gives the Soviets an unprecedented stake in Western growth.

The second irony stems from the dependence of Gorbachev's reforms on a dramatic increase in domestic investment. He needs to invest in intensive agricultural irrigation; in energy development, especially after Chernobyl; and in machinery, to offset a declining population and to raise labor productivity. And he needs to produce consumer goods that his people can see and want.

The needed investment capital must come either from a reduction in Soviet military spending or from financial markets in the West. He will probably need both. An international environment with less tension could accelerate the reductions in military spending that successful reform will require. There's even an economic rationale for military cuts. The Soviet Union will be most creditworthy if it frees resources from defense and puts them to work increasing Soviet productivity and improving living standards.

But Gorbachev appears to believe that without systemic reform more resources, alone, cannot guarantee higher levels of growth. But, implementation of his far-reaching program, announced at the June plenum will be opposed at each step. In the best of circumstances reform will take longer than expected; in the worst of circumstances it will be killed. As opposition grows, access to Western capital will become crucial. That is why the West, while not overstating its importance, should treat its capital as a strategic asset and develop a plan and set of conditions for its flow Eastward. Absent such a plan, results could be inconsistent with the West's strategic interest.

As a beginning, let me suggest that the flow of Western capital to the Soviet Union should be limited and proportionate with the degree of systemic reform. Perhaps by bringing the Soviet Union into the international financial system we would be able to establish some criteria for the provision of loans, based on the progress of reform. In the present circumstance

- 7 -

there is no discipline, and no accountability for bankers' actions.

In 1985, for example, the Soviet Union owed about \$29 billion, including \$6 billion of new borrowing. They would like to issue Euronotes, bonds, and other marketable securities. By 1990, their indebtedness is projected to increase substantially with most of the new money coming from West European and Japanese banks. The Soviets reportedly get these loans on very favorable terms, even from U.S. banking institutions. Earlier this year, a major American bank announced it was the lead bank in a \$200 million loan to the Soviet Union at a mere one-eighth of a percent over LIBOR, the international lending rate. Meanwhile, a new democracy in Latin America, such as Brazil, has to pay 2-1/4 percent above LIBOR.

The banking community argues these rates reflect risk, that it's sound commercial practice to lend cheap to the Soviets and dear to Latin Americans democracies. The Soviets, it is said, are likely to repay on time -- just like Chile's authoritarian government. That might be true now. But to lend without awareness of the strategic consequences and without alliance conditionality is shortsighted. If we make reform a vigorous criterion for lending, we then encourage General Secretary Gorbachev to push ahead on his present course. It should be tried.

At the very least, we need to recognize that General Secretary Gorbachev's expressed objectives, and his strategy to attain them, present us with a unique opportunity. Without Western capital and technology, the Soviets can increase domestic investment only by decreasing military spending. I question the wisdom -- and the morality -- of helping the Soviets avoid the choice between civilian investment and military buildups. Especially while we force harsher decisions on struggling democracies where people are starving.

Surely, if we demand economic reform as a condition for interest rate relief or new loans in the Third World, it would seem only prudent to insist on the same stringent reform criteria before permitting the Soviet Union to borrow on more favorable terms.

The West is under enormous pressure from our own electorates to cut defense spending; part of that comes from the economic pain of budget deficits caused by expensive defense programs. It would be striking indeed to hold the Soviets to a lesser standard or to help them cope with their economic problems by bailing them out of the pressures on their military budget.

3.

Finally, in addition to economic and military components a Western strategy must include a political and ideological component as well. We must never shy away from comparing the Soviet Union and the West in terms of freedom and quality of life. We must be proud that we value not just the freedom of nation but the liberty of each individual man and woman. Western democratic culture derives from the Enlightenment belief

- 8 -

that freedom is a universal aspiration and the essence of man. It should not be bargained or yielded at any price.

We should never hesitate to point out the Soviet Union's shortcomings on human rights, for they will never hesitate to point out our shortcomings. But at the same time we have to be attuned to the possibility of change even in the Soviet Union. We will watch and applaud if the Soviets go beyond glasnost, which is permission to speak, and establish freedom of speech which is guaranteed under law. We will praise a Soviet Union in which people have a bigger voice in what the economy produces. We will cheer a Soviet Union that confronts its past and allows its people to emigrate and families to reunite. Such a Soviet Union would be a safer neighbor for Europe and a better negotiating partner for the United States.

Exploiting opportunities and providing incentives to move European security and U.S.-Soviet relations to a new ground will be one of the most important challenges for the next Administration, whether Democrat or Republican. U.S. leadership should emphasize a combination of an unyielding adherence to the ideals of political liberty and a receptivity to the possibility of political reform in the Soviet Union. We are at the beginning of a process that may hold great promise. But to realize that promise, we must plan our approach carefully -- not as a unilateral American exercise but in genuine consultation with our allies. The challenge and opportunity of the next few years is not just to improve U.S.-Soviet relations. It is to work with our allies and with the Soviets to build a new security framework for Europe and the world and to achieve what has eluded us for so long -- a lasting peace.



Bill Bradley

U.S. SENATOR

Democrat/New Jersey

731 Hart Senate Office Building • Washington, D.C. 20510 • 202/224-3224

STAT

SENATOR BILL BRADLEY'S ADDRESS TO THE THIRD GENERAL
CHAUTAUQUA CONFERENCE ON U.S.-SOVIET RELATIONS
AUGUST 27, 1987

It is a privilege to speak to you this morning. Today, in Chautauqua, this uniquely American community, I would like to share with the Soviet delegates my sense of what Americans want from our relationship with the Soviet Union and what I think may be possible.

Like you, I have watched what is happening in the Soviet Union. Like you, I have many questions on the future of U.S.-Soviet relations. I have doubts and concerns, but above all, I have hope. Today, I want to talk about my hopes.

This week Americans and Soviets meet at a threshold of history: at one of those moments when a door long closed may be opening to show us the path to new places, new vistas of hope, and progress for the human race. Dostoyevsky told us that of creation, only man has no formula to tell him how to act, or even what to be. So how we walk through that door -- or whether we let it close before us -- is our choice, the human choice. And it is not arrogance but reality which tells us that of all those who will determine the course of coming events, our two nations will play the greatest roles: seeming to fulfill de Toqueville's prophecy that America and Russia were "by some secret design of Providence [each] one day to hold in its hands the destinies of half the world." X

Those in both our countries who see the seeds of a new cold war inherent in our relationship believe the world is too small for two superpowers. I reject the destiny that dooms us to be endless enemies. We can create a different future.

Maintaining peace is fundamental. Ever since our scientists unlocked the nuclear puzzle, Soviet and American arsenals have hung heavy over the future of the world. This knowledge has given our relationship its single categorical imperative -- we must never meet in war.

Yet this strong and simple conviction does not answer all questions. Avoiding war is not securing peace. Struggle,

- 2 -

tension, and conflict between our nations persist. General Secretary Gorbachev has urged us "not to evade urgent problems." Still let us candidly examine what we have in common as well as what divides us -- let us begin this process as the first necessary step toward lasting peace.

One thing we share is our love of the land. For both Soviets and Americans, the land is the wellspring of our greatness. It has steeled and tempered our people. Its beauty inspires our songs. Its cruelty is a source of our sorrows.

Early Americans were energized by the vastness of their territory and emboldened to start anew on the frontier. They extended America's boundaries, tamed her wilderness, and cultivated her abundance. They revered the land as the source of their strength and the root of their values. They derived from their experience of the land a sense of independence, tempered by a respect for life, liberty, and the pursuit of happiness. These inalienable rights remain at the core of the American character, defining our aspirations for democracy.

Unlike our brief American experience, Russian history goes back a thousand years. A history of triumph and tragedy. Often on an heroic scale. Always against the huge canvas that is the Russian and Soviet land: a majestic, silent procession of forests and lakes; the vast sweep of the steppes; the strong currents of mighty rivers; the still, somber sands of the arid zones; and the great Siberian wilderness of Taiga and Tundra.

Our peoples have been challenged and restrained by the land. We have trusted its generosity; and too often taken its replenishment for granted. Now from Chernobyl to Love Canal we see its vulnerability to abuse and we recognize that its potential for giving us rebirth may be slipping away.

Two years ago, I visited the deepest lake in the world, Lake Baikal, in Siberia. I drove there in the afternoon after an exhausting flight from Moscow. When I arrived, the lake was obscured by dense mist. I could see nothing. My disappointment was as heavy as the fog. Early next evening, after a long visit with your great writer, Valentin Rasputin, I went back. The sky was clear and luminous. The lake stretched before us...deep, still, pure. In Nature's mysterious quietness, I could hear the heartbeat of time. I could sense the life-giving force that flows through all people, Soviet and American, who know the land. I shall never forget it.

But, land is not all that we have in common. We share cultural ties: poetry and music, basketball and hockey, and most of all a love for literature -- Chekhov, Tolstoy, Melville, Steinbeck. As a student traveler, I can remember leaving the Soviet Union by car into Hungary and being detained four hours until the Soviet border guard had his fill of perusing my copy of Of Mice and Men.

We also share historical ties: we both endured the traumatic experience of revolution and the satisfaction of nation building. And, unusual among world powers, we have never declared war on each other. To the contrary, we were even allies in a war which we won, in large part, because of

- 3 -

the heroic struggle of the Soviet people against the invasion of Hitler's armies.

And, finally, we share a yearning for freedom.

Above all else, Americans cherish liberty. We fought a war to claim it from a colonial power. We value not just the freedom of the nation, but the liberty of each individual man and woman. And in America, as de Toqueville said, "The spirit of religion and the spirit of liberty are in fundamental agreement." The idea of banning any kind of religious worship is alien to us. For Americans, freedom is the essence of man. It cannot be bargained away or yielded for any price.

More than this, we have always believed that individual freedom is a universal aspiration. We borrowed our doctrines from England and Greece and ancient Israel; we were helped in our Revolution by Poles and Germans and French. We have often tried to help others to find freedom in their turn.

These sentiments cannot be strange to the people of the Soviet Union. How many times, at the limits of human endurance, did the Russian people themselves, peasants and poets, cossacks and party members, somehow rise and save their country from the invader. How many times did a Pugachev with his 80 men rise against serfdom or a Pestel, with a few hundred, challenge all the might and cruelty of the czar? Or, in our day, has not the most brilliant example of the inextinguishable thirst for human liberty come from the innermost heart of the Soviet Union -- come in the Akhmatovas and Pasternaks, and all those nameless ones who have in their matchless courage braved the winds of Kolyma, circulating handwritten manuscripts in defiance of the censor just as their ancestors evaded the censorship of Czar Nicholas The Flogger.

Despite these bonds -- of land, wartime alliance, culture and a common yearning for freedom -- our countries remain far apart. Our institutions and standards of conduct differ profoundly.

Americans are mystified by Soviet denial of many basic freedoms of expression. We do not understand why Mstislav Rostropovitch could not conduct an orchestra or play his cello in his motherland. Why pianist Vladimir Feltsman has to emigrate to perform. Why Mikhail Baryshnikov felt he had to leave in order for his artistry to grow. Why exile was the price the writer Vassily Aksyonov paid to publish his novels. We are grateful to have these artists among us. But why is Soviet soil so inhospitable to such talent?

America, as perhaps the world's most open society, is bewildered and threatened by Soviet preoccupation with secrets. There is no profit for American leaders in dwelling excessively on the sins of the Soviet past, but even General Secretary Gorbachev has said the Soviet people must "know everything and consciously make judgments about everything." Put simply, the Soviet Union itself must come to terms with its history. If the Soviet Union wishes to be trusted by others, it must first show that it believes its own people can be trusted with the truth. More than this, Americans know that we could never deal with our racial problems without squarely

- 4 -

acknowledging that slavery was our greatest crime. So the Soviet people will not be free until, as Andrei Sakharov said 20 years ago, the whole nation can examine the historical records and understand for themselves why terrible abuses of power have occurred.

Finally, we Americans are also deeply suspicious of a nation that keeps families divided, that denies loved ones the right even to visit. This may seem minor compared to regional conflicts and nuclear weapons. But to many Americans, permitting Soviet-Western families to unite is a basic requirement for membership in the international community.

Secrecy, repression, and insensitivity do not produce greater understanding between the U.S. and the Soviet Union. We want to reduce nuclear arsenals. But as one observer noted "nations do not distrust each other because they are armed; they are armed because they distrust each other."

So how do we improve relations in the face of all the things that divide us?

First we must see each other clearly.

American views of the Soviet Union swing between wishful thinking and hostile pessimism. We tend to think that the tensions between us result only from superficial misperceptions. Or, we believe that the Soviet state is our implacable adversary -- the incarnation of evil.

These caricatures lead to errors in judgment. Either they lull us into a false sense of security which, after events such as Czechoslovakia or Afghanistan, degenerates into an angry sense of betrayal. Or they obscure the significant opportunities that appear from time to time to settle grievances, reduce tensions, and advance mutual interests.

Soviet misperceptions of the United States are at least as great and as dangerous. Soviets discredit our concern for human rights and individual liberties; see our foreign policy as the captive of rapacious capitalists; attribute our defense policies to the "military-industrial-complex;" underestimate the extent to which speech is truly free in a democratic society; and ignore throughout our history the pride with which we have enfranchised ever larger segments of the American people.

These assessments are sterile, even unreal. If Soviet authorities indulge such illusions, they will be vulnerable to surprise, disappointment, miscalculation, and bad policies.

And lurking behind our views of the Soviet Union and their views of the us is the ultimate fear. The ultimate fear that the other side will start a war that leads to the use of nuclear weapons. If rationality prevails, it will never happen. To make rationality prevail is a major challenge.

To see each other more clearly also means to admit that neither of us is so devious or so naive as the other thinks. But improving understanding, accepting differences, and identifying mutual interests will not happen overnight. Conflict stems from clashes of interest. Minimizing confrontations and the danger of war means resolving conflicts

5 -

of interest. We should proceed soberly but confidently one step at a time, promising only what we can deliver.

And there is no better time than now. Before Mikhail Gorbachev became General Secretary, all but the most optimistic Americans would have given very low odds to significantly improved relations. We saw a nation in the grip of a rigid ideology, sinking under the weight of economic stagnation and official corruption, while engaged in a massive military buildup. It was as if the Soviet generals had been given a blank check to indulge their ambitions and to indenture the economic future of the Soviet Union.

But in 1985, we began to feel the winds of change. General Secretary Gorbachev began to call for "revolutionary change" and "historic restructuring" of the Soviet system. Many Soviet participants at this conference are leading figures in that reform effort. In February of this year, the General Secretary said: "Our international policy is determined more than ever before by our domestic policy, by our interest in concentrating on creative work for the perfection of our country. For that very reason we need a more stable peace, predictability, and a constructive direction of international relations."

Because of the General Secretary's words and his actions, Americans have begun to question their old views. Were we wrong? Is Soviet change possible after all? Are such radical new possibilities practical? Should we rethink our policies toward the Soviet Union?

We know our influence over the internal affairs of the Soviet Union is limited. But at the same time, we are all citizens of the same human community, and we Americans believe that stable peace and increasing freedom go hand in hand. So we would share with you the views and the questions on American minds as we watch what is happening in the Soviet Union.

First, some of General Secretary Gorbachev's proposed reforms promise a more productive society. But they also threaten the Soviet status quo and political establishment. Americans recognize that the Soviets face a strategic choice: either cling to the established ways, with military power and internal repression as the major sources of authority. Or seek through a more open expression a broader mandate to govern and permit the political economy to be transformed. Americans doubt that there is any middle way.

We Americans also ponder how fully the General Secretary and his supporters have foreseen the challenges of transforming the Soviet state. We watch how far or fast they will proceed and if the Soviet people are with them.

We ask:

Will the Party and State bureaucracy, about which Gorbachev has often complained, share more power with the Soviet people?

Will workers have a bigger voice and trade unions a stronger role, even as "restructuring" creates hardships for some workers who lost their jobs?

- 6 -

Will Soviet citizens make their own choices about what to read, see, hear, buy, and sell?

Will Soviet authorities accept differences in politics, culture, and religion?

Will freedom to travel no longer be confined to the privileged few?

Will Soviet history, including the record of Stalin's purges, Ukrainian famine, and collectivization, be taught by people concerned with discovering the truth?

Will fewer resources go to a military buildup at home and abroad?

Will Gorbachev's call for Democratization bring greater autonomy to minority nationalities who have lived under Russian dominance for decades?

Will the Soviet leadership let the people of Eastern Europe restructure their own systems and their relations with the outside world?

Will Soviet youth be permitted to repudiate the war in Afghanistan with the same decisive vehemence that young Americans rejected Vietnam?

Will all this happen or will only some of it? How broad a swathe does Gorbachev want to cut through Soviet history?

Some Americans say real reform cannot happen in the Soviet Union; that reform will be stalled by the system's inertia or be subverted or even overthrown by the opponents of change. Other Americans worry that if reform succeeds, the Soviet Union will emerge as a stronger and more dangerous adversary, able to make new demands on the West.

"The reformer," said Machiavelli, "has enemies in all those who profit by the older order, and only lukewarm defenders in all those who would profit by the new order." Even so, most Americans are rooting for the reformers. Most Americans agree with Andrei Sakharov that... a firmly based peace requires a more open Soviet society.

And now, as the door long closed may be opening, we Americans must be flexible enough to allow for our own rethinking in order to seize new opportunities for a lasting peace. We know the importance of dialogue and negotiations -- to dispel the specter of nuclear catastrophe, to avoid the horror of any war, and to resolve conflicts of interest. If reform continues in the Soviet Union I believe we can cut U.S. and Soviet conventional forces in Central Europe and indeed nuclear weapons, by more than anyone has been prepared to talk about up to now. Why should Soviet families sacrifice and the Soviet economy suffer to maintain vast, offensive armies in the center of Europe when there is no threat to them? They should not. It is within our power to create a different future, for as Solzhenitsyn said, "history is us..."

Meetings like this one in Chautauqua, that bring together politics, religion, and art, are important. We need powerful voices that express direct human feelings in ways that politicians hear. We need an American/Soviet competition that celebrates and preserves humanity, not endangers it; one that

- 7 -

enables us to solve our nations' domestic problems instead of threatening the world with destruction. We need prophets and dreamers, as well as generals and bureaucrats. In the words of Valentin Rasputin..., we need "to establish a different plan -- one measured not just in cubic meters, but in souls."



Bill Bradley

U.S. SENATOR

Democrat/New Jersey

731 Hart Senate Office Building • Washington, D.C. 20510 • 202/224-3224

For Immediate Release: Saturday, April 12, 1986
Contact: Lisbeth Pettengill, John Steele

SENATOR BILL BRADLEY SPEECH ON
NATIONAL SECURITY AND ECONOMIC POWER
Democratic National Committee Policy Roundtable
April 12, 1986

Today I'd like to talk about America's role in the world and about American leadership. In doing so, I want to focus on two, new strategic opportunities for advancing our national security, not by military might, but through the positive use of our economic power.

America welcomes the challenges of leadership offered by an interdependent world. As the largest, strongest democracy, we have long tried to promote democratic values and to champion human rights and personal freedom.

And, the Democratic party has a unique opportunity to lead the nation in the pursuit of those goals. There are two strategic opportunities that we cannot afford to miss. One is the chance to influence the Soviet Union towards reduced defense spending through economic pressure. The other is to offer Mexico and fledgling democracies of South and Central America a partnership to attack poverty, to promote democracy, and to generate economic growth. Both will require a party that is prepared to think in a new way about the Soviet Union and about the opportunities offered by genuine inter-American cooperation.

Let us start with the Soviet Union. The Reagan Administration has based its strategy for restraining Soviet expansion on outspending them in military programs. Perhaps the most serious shortcoming of the Reagan approach to contain Soviet power is its failure to capitalize on our ability to advance our national security, not through our military, but through our economic power. This opportunity comes from the waning of the Soviet economy. Last summer, I spent two weeks in Siberia and Moscow meeting with officials involved in economic development and planning. And as part of the Senate Intelligence Committee, I

- 2 -

have examined the Soviet economy and its prospects for reform under Gorbachev. I believe it is highly unlikely that the Soviets will make sweeping and enduring changes in their economic structure and social organization. And in the absence of such reforms, it will be virtually impossible for the Soviet economy to achieve, let alone sustain, the significant growth they have projected.

Why do I say this? Because the USSR faces the prospect of continued, if not worsened, economic stagnation. Overcoming this condition requires a major increase in the productivity of capital and labor. Yet Gorbachev is trying to raise productivity by tinkering and exhortation: appointing new managers; intensifying discipline and banishing alcohol to get more work; conserving available resources, rather than expanding production of new ones; and renovating the nation's equipment and machinery.

At best, the Gorbachev program can compensate for some of the gross inefficiencies in the existing system. But the sustained high growth the new leadership pledges to achieve would require an unprecedented relaxation of political, as well as economic, controls. And a reduction in control that is essential for growth would threaten the Soviet regime. For example, it would alter the distribution of income and power on which the elite party patronage is based. It would also give people more money to spend on an inadequate supply of goods--thus generating inflation. This, in turn, would generate labor strife which the system would have trouble containing. Most important, of course, it would diminish party authority and influence.

I have seen no evidence that the new leaders have any inclination to relinquish control or that they have any confidence in the institutions and values on which a more open society would be based. Nor do I see any willingness to accept the discipline of a market economy, with all that implies for potential unemployment and destruction of inefficient enterprises. Yet without making some radical changes, the country seems fated to remain economically backward compared to the West. In time, this will jeopardize its ability to compete militarily as well. Moreover, the system's inherent shortcomings are aggravated by other problems.

For example, there are grave social ills:

- the birthrate has dropped from 31.2 per 1,000 in 1940 to only 18.7 per 1,000 in 1981.
- infant mortality rates are about 35 per 1,000 births compared with 11.2 per 1,000 for the U.S.
- The mortality rate for the whole country rose 57% (6.9 per 1,000 to 10.8 per 1,000) in the 20 years 1964-84 and it rose even more among young males of prime working and military age--an unprecedented peace time event in any developed country.
- Since 1970, the average lifespan for adults has declined from 64 years (men) and 76 years (women) to 62 and 73 years in 1980.

-- Over the last 15 years,* about 30 million people entered the Soviet labor force. In the next 15 years, there will only be 6 million entrants and half will be in the Southern, largely Muslim, states.

These statistics are appalling. No other industrialized nation has ever experienced a long term decline in adult lifespans accompanied by an increase in infant mortality. The causes of these extraordinarily high infant mortality rates are instructive: alcohol, infectious disease (13% of the illness in the U.S.S.R. is due to unsafe drinking water) and the decreased share of the budget committed to medical care, which declined 14 percent (from 6% to 5.2%) between 1965 and 1978. And the effects of these facts spell serious trouble for the Soviet economy because they mean increased labor shortages aggravated by poor health, low productivity and a high rate of retirement. To complicate matters, the birthrate for Muslim Republics is about 5 times higher than for the Slavic republics. Yet 60 percent of the Soviet Union's industrial production is in the Slavic regions and the Muslims do not want to leave their homelands. This potentially explosive situation is exacerbated by the fact that most of the skilled workers are Slavs. So their declining birthrate signals a shortage of skilled workers at the very time the demand for such skills will be highest.

There are also severe economic constraints. The new 5 year plan (which I believe has less of a chance for implementation than the proposed Reagan budget) calls for 5 percent a year growth through the year 2000. Since this is to be achieved with minimal increases in labor and investment, the key has to be increased productivity. Yet productivity has been steadily declining by about 1 percent a year since 1975 and there is no reason to expect it will turn around any time soon.

The trade outlook is also grim. In the 1970s, one-third of Soviet growth came from trade. Nowadays, that growth source has virtually dried up. And falling oil prices have only made matters worse. Until recently, oil and gas exports amounted to about 75 percent of total Soviet hard currency earnings. By 1985, the volume of petroleum exports to the West had fallen by about 30 percent and this year the value of Soviet oil and gas has fallen still further. (A side effect of falling oil prices is that Soviet weapons sales to oil rich nations, which recently earned them as much as \$6 billion a year, are also shrinking fast.)

The Soviets badly need hard currency to meet their own goals. They want it in order to:

- import technology,
- buy grain,
- subsidize Marxist revolutions,
- underwrite anti-Western and terrorist regimes, and
- invade their neighbors such as Afghanistan.

But the oil price decline has cut Soviet hard currency earnings in half over the past two years and threatens to reduce

it even further if oil stays at \$10-12/barrel. Something has to give. Gorbachev has a real dilemma: will he limit meat production which depends on foreign grain, or will he cut back on the machinery imports that are central to his modernization plans? A very tough choice for a newly-installed leader.

Disquieting as these developments must be to the Kremlin, they may offer the United States a strategic opportunity, provided we play our cards right. Gorbachev's way out of this dilemma will probably be to import needed equipment and technology from the West and to import it on credit. Yet it is not in our interest to bail out the Soviet Union when that only translates into more spending on defense and more Third World adventures. On the contrary, it is in the West's interest to see Soviet military spending drop so that we can remove some of the military advantages that the Soviets have acquired over the last 20 years and cut back on our own defense buildup.

To give you some idea of just what is at stake, let's take one example. There is general agreement that if the West wants to reduce its reliance on nuclear weapons to deter a Soviet attack on Europe, we have to build up our conventional forces to more closely approximate those of the Warsaw pact. Naturally the Europeans resist such increases on political and economic grounds. So the other alternative is to conclude an agreement on mutual and balanced force reductions, a process that has been limping along for a decade and a half, so far without results. What if there were a third alternative? What if it simply became too expensive for the USSR to maintain its conventional forces at their current level? If they cut back, that would result in a significant reduction in the Soviet advantage in conventional forces at no new cost to the West.

I don't want to oversell the possibilities. I know we cannot squeeze the Soviets into unilateral disarmament but we may force some unilateral cutbacks and, at the very least, make them more interested in truly mutual arms control. And by restricting the economic help Moscow gets from the West, we may even persuade them to face the full costs of their military operations in such places as Afghanistan and elsewhere.

The West has a choice and an opportunity: we can help the Soviet Union ride out its economic difficulties--or we can withhold that help unless the terms are right. I have no illusions that the U.S. can control the flow of credit and loans to the Soviet Union with any great precision. I also know that private bankers and industrialists (particularly Republicans) will tend to resist. Nevertheless, with U.S. leadership and concerted action, Western governments do have a means of persuading the Soviets to accept a balance of power that is at once more favorable and less costly to the West.

This prospect suggests that the U.S. should be working with our allies:

- 5 -

- to develop a common understanding of the Soviet Union's internal political and economic situation,
- to win acceptance for a tougher line on the Soviet Union's credit worthiness given declining energy prices and the resulting worsening of the Soviets' capacity to service their debt;
- to discuss the strategic goals the West might seek, in exchange for granting a better economic relationship to the Soviets -- e.g. withdrawal from Afghanistan, nuclear arms limitations, conventional force reductions, discontinuing support for Marxist revolution, abatement of the Soviet Union's own human rights abuses.

There will be some who will say that our European allies will never support such an approach, that their interests lie in closer relations with the East, especially where trade is concerned. I believe it would be a mistake to write the Europeans off so quickly. The reality is that they are much more exposed to Soviet military power than we are. So they have an even bigger stake than we do in the decline of that power. In any event, we should take the lead by demonstrating the large advantages that would accrue from implementing such a strategy.

Others will argue that putting economic pressure on the Soviets will back them into a corner and make them mad. Frankly, I think they have too much on their hands at home, so I don't think that danger is very great. Moreover, by increasing the costs of Soviet foreign military adventures, the West can decrease the likelihood that these adventures will occur.

Unlike the Reagan approach, the strategy I am proposing puts a premium, not on outspending the Soviets militarily, but on applying the West's superior economic power. In this way we can improve the terms and lower the costs of our competition with the Soviet Union, and increase the burden on them of Third World adventurism.

Now let us turn to the second strategic opportunity: the emergence of democratic forces in Latin America.

The U.S. has a large stake in Latin America's economic growth and political stability. Threats to Latin peace and prosperity jeopardize the Americas' collective security and would have to be countered through collective action. So North, Central and South Americans share a common interest in the success of democracy in places like Peru, Argentina, Brazil, Guatemala and El Salvador. But we know that democracy cannot take root and flourish without the tangible promise of a better life. That means economic growth. It means attacking poverty, saving lives, fulfilling hopes.

The biggest obstacle to realizing this dream of a better life is the burden of debt that casts a long shadow over the future of many of these nations. Yet Latin America not only has a debt problem but also has a growth crisis and the two are related.

- 6 -

With a \$274 billion debt, requiring \$30 billion in annual interest payments, and interest/export ratios approaching 50% in some Latin American countries, it is no surprise that there is little growth. Solving Latin America's growth crisis will take a formula for debt management. But more importantly it will take a partnership between our two regions built on mutual respect, democratic values and a determination to assure adequate food, health care and education, as well as human rights and personal freedoms. It is in this partnership for growth that our new strategic opportunity lies.

In order to make the most of this opportunity, we need to be clear about the U.S.' stakes in making such a partnership work. The stakes boil down to two issues: American jobs and Latin democracy.

The simple truth is that the unacknowledged victims of the Latin debt crisis are American workers who have lost over one million jobs in the last few years. The reason is that the only way Latin Americans have been able to meet their new debt schedules imposed by the IMF and the banks has been to promote exports and restrict imports. This has meant the collapse of Latin markets for U.S. products. A few statistics make some telling points:

- in 1983, we lost one-third of our exports to Latin America;
- in the two year period, 1981-1983, exports of U.S. machinery fell by 38%, steel and motor vehicles fell by 50%, construction equipment dropped by almost 80%, and agricultural machinery was cut by over 85%;
- between 1981-85, 80% of the markets lost by American soybean growers were attributable to an Argentine export drive required by its creditors;
- in the last three years the debt crisis has added half a percentage point to our unemployment and billions to our budget deficit;
- and between 1981-84, the annual U.S. trade deficit with Latin America increased by \$23 billion, compared with an \$18 billion increase for Japan and at most a \$15 billion increase from unfair trade practices worldwide--the two factors that usually get blamed for our huge trade deficit.

So American workers and farmers have lost jobs and markets while banks have continued to profit from Latin loans. The economic security of millions of Americans demands a better deal.

But partnership with our Latin neighbors embraces more than the job security of U.S. workers. We also care about the consolidation of democracy in Latin America and we recognize that democracy is premised on growth. Yet poverty increases as resources drain from the region. Nor is all of this draining due to debt repayments. In the last 3 years, capital flight has siphoned off over \$30 billion that should have been invested in fueling Latin American growth. Some bankers claim that as much as 50 cents on every dollar of new loans to a country like Mexico

will find its way into Miami real estate or Swiss bank accounts. Any effective policy to manage these countries' debt will have to deal with capital flight. It must require that a nation's domestic investors vote with their savings if foreign creditors are to participate in new loans. This will require, not only sound economic policies, but political will as well.

Sadly, capital flight, together with Latin America's efforts to stay current on debt payments, have created a recession in most Latin countries by depriving them of the investment they need to keep growing. Living standards have fallen as a direct result of austerity conditions imposed by foreign lenders. From their peaks in 1980 through 1985, real standards of living fell 8% in Mexico, 14% in Peru, 17% in Argentina, and 19% in Venezuela. In Mexico, non-oil public investment is at the 1964 level even though the population has increased by 30 million. There is an increasingly volatile political climate in Mexico in which plummeting living standards can easily become an issue custom-made for demagogues. Argentina's Peronists are trying to make President Alfonsin pay for his pragmatic stand toward debt repayment. Even President Garcia of Peru is finding that his hard line position on foreign debt has not isolated him from terrorist attacks. And looking beyond the impact of the debt crisis on present leaders, we must worry about the future of democracy throughout the region.

Unless the U.S. helps present leaders counter poverty successfully, we shouldn't be surprised when their successors choose a non-capitalist model to deal with poverty. We cannot complain when their present good will turns into hostility toward the U.S. Our debt policy hurts our neighbors to the South today, and makes political turmoil more probable tomorrow.

We, as a partner in the Inter-American community, can no longer allow the debt crisis to foreclose Latin America's chance for democracy and growth and mortgage their future to debt service. The so-called Baker plan is not an answer. It is an admission by the Reagan administration that the approach it had been pursuing had reached a dead end. It is a repudiation of the international economic policy of Reagan's first five years. And as a blueprint for the future, it is one the one hand too ambitious in calling for drastic internal changes from Latin countries, and, on the other hand not ambitious enough in showing debtors and creditors alike a way out of the debt crisis which puts a premium on the well-being of the Latin American people.

We need to recognize that the debt issue offers the political opportunity of a generation. We need to think in terms of partnership instead of conditionality, growth instead of austerity. We need to break the stand-off between the banks, debtors and multilateral agencies that threatens to bog down debt management. And we need to make Latin American initiative, not supply-side dogmatism, the basis of a strategy for long-term growth.

The core of an idea on how to deal with Third World debt is to establish a seven member council representing and coordinating the actions of commercial creditors, creditor governments and multi-lateral lending agencies. This coordinating council would evaluate debtor country growth proposals and offer a package of debt relief options that are appropriate to a specific growth plan.

Finally, the Reagan Administration has also been remiss in focusing unduly on the military conflict in Central America. The \$100 million in aid to the Contras would barely cover the cost of a single day's debt service for the region. It is high time the Administration acknowledged that political turmoil is a product of economic stagnation and that a failure to assist economic development can change all too easily into strategic losses for the U.S. It will not be enough to have aided the Contras if Mexico is engulfed in political chaos because the U.S. attached less value to Mexican prosperity than to the convenience of foreign bankers. Yet were Mexico to collapse, the controversy over Nicaragua would be only a sideshow and U.S. leadership in Latin America only a fiction.

After World War II, the U.S. stepped boldly into the role of international economic leader and pathbreaker. Recognizing the need to rebuild Europe, the U.S. challenged Europe to propose plans for growth which we supplemented with aid.

Once again, America has the opportunity to lead effectively, to challenge a region to develop plans for growth. Let us not wait for wars or earthquakes to take bold initiatives for our common good. Democrats believe that leadership means seizing opportunities, not just reacting to threats. In South and Central America, and yes in the Philippines, we have the opportunity to champion the forces of democracy, not merely to pit our military strength against democracy's foes. The choices are clear:

- dictatorship or democracy;
- debt or growth;
- confrontation or partnership.

I hope Democrats want partnership, democracy and growth. Let us put our economic power to help these new democracies and, in doing so, advance our own national security as well.

In conclusion, Democrats recognize that even for a nation as rich as America, security lies in making realistic and intelligent choices. No nation can afford to pay any price or bear any burden to prevent tyranny. We must use our resources intelligently. By deploying our economic power against democracy's adversaries, we increase the costs to those who oppose democratic revolution. And by lending our economic strength to those who aspire to freedom, we help make democratic revolution a reality.

Page Denied

Next 23 Page(s) In Document Denied



Bill Bradley
U.S. SENATOR
Democrat/New Jersey

731 Hart Senate Office Building • Washington, D.C. 20510 • 202/224-3224

The Debt Crisis as a U.S. Job Crisis

Senator Bill Bradley

Thursday, July 24, 1986

The National Press Club, Washington, D.C.

Let's say you run a hardware store in Fairmont, Minnesota. Most of your customers are farmers. What will happen to your business as the farm credit crisis deepens? If your customers use more and more of their earnings just to pay the interest on their loans, they are going to cut purchases in your store. You'll be lucky to stay in business.

The farm credit crisis hurts both farmers and their suppliers. But at least Congress and the Administration recognize it as a national problem. Today I want to talk about a problem that poses as big a threat to our national well being. Today I want to outline the impact of the Latin American debt crisis on Americans.

The U.S. is like the hardware store in Fairmont. And Latin America is the customer in deep trouble. But this is no small customer. Its buying power is the same size as that of the United States seaboard - from Maine to Florida. The nations of Latin America are our natural growth partners; they are our neighbors. One of the hopes we have for our children to enjoy the economic growth we had after World War II is to help those neighbors prosper. Prosperous customers make for a prosperous store.

Like our farmers, Latin American neighbors are in a recession caused by debt. It started in the 1970's when oil prices skyrocketed and the governments of industrialized countries encouraged private banks to lend petro dollars to

Sen. Bradley / National Press Club / Page 2

third world countries so they could buy oil and prevent their economies from collapsing. It worsened dramatically when interest payments shot up in 1981, bursting the inflationary bubble. And it peaked when Mexico nearly defaulted in 1982. What has that meant here at home?

In just two years, sales of U.S. construction equipment to Latin America plummeted. One company alone can trace the loss of 4,360 U.S. jobs to the effects of the Latin American debt crisis.

A New Jersey pharmaceutical company told me that its Ecuador branch can no longer buy materials from its New Jersey plants. Ecuador uses all the dollars it accumulates every year just to pay interest on its debt and to buy absolute necessities. And the American Soybean Association says there is no question that Mexico's debt crisis has cut our soybean exports to that country.

The numbers have the dry ring of an obituary. In two years, between 1981 and 1983, machinery exports to Latin America dropped 38%, steel and motor vehicles dropped 50%, construction equipment dropped 80%, and agricultural machinery dropped 86%. U.S. exports have never recovered.

No exports mean no sales. No sales mean no jobs. In fact, 400,000 Americans have lost their jobs because the Latin American export market dried up and another 400,000 Americans didn't get jobs because Latin American economies stopped growing.

If the debt crisis has hit us this hard, what has happened to our customers? In Bolivia, inflation hit 50,000% in 1985 with per capita income down 30% since 1980. Inflation was so high that Bolivian currency printed in Brazil was the nation's third largest import. Fighting in Peru has cost 8000 lives in six years, as an antidemocratic insurgency stirs rural hunger into violence.

The debtor nations owe so much money to U.S. banks that in order to pay it back, they are siphoning off funds that they need to improve their own living standards. During the 1980's, living standards have dropped 8% in Mexico, 14% in Peru, 17% in Argentina, and 19% in Venezuela. At the same time, the region has transferred \$100 billion to foreign banks in the last four years. People are out of work and losing hope.

High debt and high debtor inflation are an explosive combination. They create an atmosphere where democracy can not take hold. As the debtor nations cut back on their domestic budgets they hurt the poor. The tangible promise of a better life disappears. Discontent grows and provides a breeding ground for instability and revolution.

Sen. Bradley / National Press Club / Page 3

The architects of the Marshall plan remembered this lesson from Germany in the 1930's when they responded to Communist strikes in France and Italy after World War II. The Marshall Plan to rebuild Europe amounted to \$14.6 billion. This was about the level of U.S. defense expenditures in 1950. Now, U.S. defense expenditures are \$300 billion per year, almost as high as Latin America's total debt. But Congress nearly failed to provide \$8 billion for the International Monetary Fund in 1983 after Mexico's near default. Any solution must attack poverty and address the distinctive nature of the problem.

Latin American debt is different from other debt such as farm debt or commercial debt because there are no bankruptcy proceedings for nations that cannot pay. And there are no support programs to stave off depression. For a country to keep paying past its means ultimately leaves only default or political upheaval as options.

The one hope for attacking poverty - economic growth - cannot be generated under a burden of debt. Growth requires investment not just in infrastructure but also in education, in health, and in social welfare. If a country doesn't make what it needs for these investments, it must rely on imports. But debt service also demands dollars. Dollars are earned by exporting. So Latin Americans must export at any price. As they flood America with their exports, even more Americans lose their jobs - about 600,000 since 1982.

For example, between 1980 and 1984, Brazil expanded textile and apparel exports by a factor of 11. Yet these exports are destroying the U.S. textile and apparel industry in the process and the Brazils of the world aren't using the money they earn to buy American goods. They're using that money to pay off the banks.

Desperation exports from deeply indebted countries drove commodity prices down across the board last year. Latin American exporters were willing to sell at any price to earn dollars for debt payments. Sugar prices fell 27%, wheat fell 10%, and corn and soybeans fell 19%. Argentina, for example, needs 50 cents out of every dollar of export earnings for debt service. Since 1981, Argentina's soybean drive has claimed 80% of the worldwide markets lost by U.S. soybean growers. The American Soybean Association puts it like this. Creditors have asked their Third World debtors to "maximize exports by hook or crook, cut imports to the bone, and use the resulting trade surplus to repay debt." The Association says: "U.S. farmers are not experts on international banking and the problem of debtor countries. But they are beginning to realize they have a stake in how the current debt crisis is handled." That stake is jobs in farming communities, and, for some, the very tradition of generations of family farming.

Sen. Bradley / National Press Club / Page 4

The question for the U.S. is not whether to enter a closer partnership with Latin America. The question for the U.S. is what the terms of that partnership will be.

We have had since 1982 a history of piecemeal, incremental management of the debt crisis. Against this background, Secretary Baker made an important contribution last year. He said debtor countries should grow, not run austerity programs. This was a breakthrough primarily because it reversed the Administration's debt policy of hopeful neglect.

Now we must go forward and ask how the Baker debt policy actually affects growth in debtor countries. I believe the formula could be improved. I believe that incremental, forced loans from banks that are already overexposed will not rekindle debtor growth. Emergency loan packages that just go to cover a portion of Latin American debt service payments will not recapture any of those 800,000 lost American jobs. Forced lending will not make banks more sound. I believe that new lending alone leads nowhere. Lending is no substitute for leading.

So what are the next steps. How do we take the Baker plan's goal - economic growth - and convert it into a strategic opportunity to advance American interests and demonstrate American commitment to values shared by many of our neighbors to the South.

First, we must convince Latin America that our principal goal is not trying to overthrow a particular regime or siding with a particular political party or promoting a particular economic ideology. Nor is it even saving American banks, or advancing U.S. multinationals, or fighting communism. Rather, our target is poverty. Our goals are more hope, less desperation; more stability, less turmoil for the people of Latin America. These goals serve the long term, best interest of both the United States and Latin America.

Second, the plan we propose must be big enough to be seen by Latin America as a cure, not simply a Band-Aid -- a destination, not just a signpost on the road to the next crisis. The plan must be bold enough to challenge the imaginations of Latin American leaders. If it is not, they will once again find a reason to avoid taking bold steps for growth within their own countries and they will have no political stake in taking a risk. The plan must offer the potential, if they develop it, of a fresh start for growth and a reinvigoration of democracy.

Third, the initiative must come from the debtor countries. After we express a willingness to help them, Latin American countries must assume a full role in our partnership for growth. The U.S. cannot, and it would be foolhardy to try to, impose a solution or economic agenda on Latin America. Each country must define what it needs and

Sen. Bradley / National Press Club / Page 5

then ask the U.S. for support. Debtors, not unlike banks, have become marginalists, which leads from one crisis to another and in the process breeds resentment, cynicism and corruption of the very values we should be championing.

With these criteria in mind, several weeks ago I proposed a plan which I think meets these criteria. I suggested that representatives of commercial banks worldwide and the major creditor countries should meet annually for the first three years of the new round of multilateral trade talks. Creditors should offer debt and interest rate relief and increased multilateral aid in exchange for debtor reforms which will generate growth.

As a target and only a target for the total value of yearly trade debt relief packages that the summit would offer to eligible countries, I suggest:

- 3 points of interest rate relief for one year on all outstanding commercial and bilateral loans to eligible countries;
- 3% write-down and forgiveness of principal on all outstanding commercial and bilateral loans to eligible countries; and
- 3 billion dollars of new multilateral project and structural adjustment loans for eligible countries.

These relief packages should be carefully tailored to the needs and commitments of each country. The actual value and mix of each yearly trade/debt relief package should depend on the uses that each debtor has made of a previous year's package. The relief should vary from year to year, and from country to country, depending on results. Although reforms coming from within will differ from country to country, they should generally liberalize trade, reverse capital flight, increase internal investment, promote economic growth, and enjoy broad internal political support.

Such a plan is big enough, bold enough and flexible enough to rekindle economic growth, to encourage Latin leaders to take the political risk of reforming their economies and to put U.S. workers and farmers back to work.

I am hopeful that we'll seize this opportunity for a growth partnership with Latin America. Frankly, the Mexico package announced yesterday by the Treasury Department is encouraging, even though insufficient without some debt relief. Its reasonableness on the Mexican deficit recognizes that from 1982-1985, Mexico has already slashed its federal budget deficit on a comparable basis farther than Gramm-Rudman would cut ours and in three-fifths the time. Tying an increase in future loans to the price of oil and to future Mexican growth also is realistic. I hope it signals a new mood and a new spirit that we're all in this together and that helping Mexico restore growth is not a problem but an opportunity for America.

Sen. Bradley / National Press Club / Page 6

In particular, I was pleased by the size of the package -- \$12 billion over 18 months, double what anyone expected -- and by the suggestion that interest rate relief may be forthcoming. As I read the proposal, there is no reason why all the new \$6-7 billion of new commercial debt and any restructured debt would have interest rates any higher than LIBOR (London Interbank Offered Rate.)

If that approach were applied to all debtors, it would be extremely significant. Brazil, for example, pays nearly two and one-half percent above LIBOR on the bulk of its \$100 billion debt. To get the LIBOR rate would reduce Brazil's interest payments by almost 25%. While that is not the 3% interest rate reduction envisioned in my proposal, it's close. Such interest rate relief would be the next logical step in our attempt to challenge Latin America to a partnership for growth.

In conclusion, Third World debt relief must be about something more than numbers and protecting fragile financial systems, although those are critical concerns. And it must be about more than achieving political stability in volatile parts of our increasingly interdependent world, although political stability is also crucial for all industrialized countries. Ultimately, it must be about what we owe one another as human beings, and, in this case, what we owe one another as neighbors. It is well within our means to provide the opportunity for our neighbors' growth and development, and to help their governments combat poverty and establish democratic institutions. It is an opportunity we must seize if we take seriously the values on which our civilization is built.

end

BILL BRADLEY
NEW JERSEY

United States Senate

WASHINGTON, DC 20510

COMMITTEES
FINANCE
ENERGY AND
NATURAL RESOURCES
SELECT COMMITTEE
ON INTELLIGENCE
SPECIAL COMMITTEE ON
AGING

THE DEBT CRISIS AND INTER-AMERICAN PARTNERSHIP
HOUSE FOREIGN AFFAIRS COMMITTEE HEARING
By Senator Bill Bradley
Wednesday, July 30, 1986

Our Latin American neighbors are in a recession caused by debt. It started in the 1970's when oil prices skyrocketed and the governments of industrialized countries encouraged private banks to lend petro dollars to Third World countries so they could buy oil and prevent their economies from collapsing. It worsened dramatically when interest payments shot up in 1981, bursting the inflationary bubble. And it peaked when Mexico nearly defaulted in 1982. What has that meant here at home?

In just two years, sales of U.S. construction equipment to Latin America plummeted. One company alone can trace the loss of 4,360 U.S. jobs to the effects of the Latin American debt crisis.

The numbers have the dry ring of an obituary. Between 1981 and 1983, machinery exports to Latin America dropped 38%, steel and motor vehicles dropped 50%, construction equipment dropped 80%, and agricultural machinery dropped 86%. U.S. exports have never recovered.

No exports means no sales. No sales means no jobs. In fact, 400,000 Americans have lost their jobs because the Latin American export market dried up and another 400,000 Americans didn't get jobs because Latin American economies stopped growing.

If the debt crisis has hit us this hard, what has happened to our customers? In Bolivia, inflation hit 50,000% in 1985 with per capita income down 30% since 1980. Inflation was so high that Bolivian currency printed in Brazil was the nation's third largest import. Fighting in Peru has cost 8000 lives in six years, as an antidemocratic insurgency stirs rural poverty and hopelessness into violence.

The debtor nations owe so much money to U.S. banks that in order to pay it back, they are siphoning off funds that they need to maintain their own living standards. During the 1980's, living standards have dropped 8% in Mexico, 14% in Peru, 17% in Argentina, and 19% in Venezuela. At the same time, the region has transferred \$100 billion to foreign banks in the last four years. People are out of work and losing hope.

Sen. Bradley / Foreign Affairs Test./ Page 2

Latin American debt is different from other debt such as farm debt or commercial debt because there are no bankruptcy proceedings for nations that cannot pay. And there are no support programs to stave off depression. For a country to keep paying past its means ultimately leaves only default or political upheaval as options.

The one hope for attacking poverty - economic growth - cannot be generated under a burden of debt. Growth requires investment not just in infrastructure but also in education, in health, and in social welfare. If a country doesn't make what it needs for these investments, it must rely on imports. But debt service also demands dollars. Dollars are earned by exporting. So Latin Americans must export at any price. As they flood America with their exports, even more Americans lose their jobs - about 600,000 since 1982.

For example, between 1980 and 1984, Brazil expanded textile and apparel exports by a factor of 11. Yet these exports are destroying the U.S. textile and apparel industry in the process and the Brazils of the world aren't using the money they earn to buy American goods. They're using that money to pay off the banks.

Argentina, needs 50 cents out of every dollar of export earnings for debt service. Since 1981, Argentina's soybean drive has claimed 80% of the worldwide markets lost by U.S. soybean growers.

The question for the U.S. is not whether to enter a closer partnership with Latin America. The question for the U.S. is what the terms of that partnership will be.

We have had since 1982 a history of piecemeal, incremental management of the debt crisis. Against this background, Secretary Baker made an important contribution last year. He said debtor countries should grow, not run austerity programs. This was a breakthrough primarily because it reversed the Administration's debt policy of hopeful neglect.

Now we must go forward and ask how the Baker debt policy actually affects growth in debtor countries. I believe the formula could be improved. I believe that incremental, forced loans from banks that are already overexposed will not rekindle debtor growth. Emergency loan packages that just go to cover a portion of Latin American debt service payments will not recapture any of those 800,000 lost American jobs. Forced lending will not make banks more sound. I believe that new lending alone leads nowhere. Lending is no substitute for leading.

So what are the next steps. How do we take the Baker plan's goal - economic growth - and convert it into a strategic opportunity to advance American interests and demonstrate American commitment to values shared by many of our neighbors to the South.

First, we must convince Latin America that our principal target is poverty.

Second, the plan we propose must be big enough to be seen by Latin America as a cure, not simply a Band-Aid -- and it must be bold enough to challenge the imaginations of Latin American leaders.

Sen. Bradley / Foreign Affairs Test./ Page 3

Third, the initiative must come from the debtor countries. The U.S. cannot, and it would be foolhardy to try to, impose a solution or economic agenda on Latin America.

With these criteria in mind, several weeks ago I proposed a plan which I think meets these criteria. I suggested that representatives of commercial banks worldwide and the major creditor countries should meet annually for the first three years of the new round of multilateral trade talks. Creditors should offer debt and interest rate relief and increased multilateral aid in exchange for debtor reforms which will generate growth.

As a target and only a target for the total value of yearly trade debt relief packages that the summit would offer to eligible countries, I suggest:

- 3 points of interest rate relief for one year on all outstanding commercial and bilateral loans to eligible countries;
- 3% write-down and forgiveness of principal on all outstanding commercial and bilateral loans to eligible countries; and
- 3 billion dollars of new multilateral project and structural adjustment loans for eligible countries.

These relief packages should be carefully tailored to the needs and commitments of each country. The actual value and mix of each yearly trade/debt relief package should depend on the uses that each debtor has made of a previous year's package. The relief should vary from year to year, and from country to country, depending on results. Although reforms coming from within will differ from country to country, they should generally liberalize trade, reverse capital flight, increase internal investment, promote economic growth, and enjoy broad internal political support.

Such a plan is big enough, bold enough and flexible enough to rekindle economic growth, to encourage Latin leaders to take the political risk of reforming their economies and to put U.S. workers and farmers back to work.

I am hopeful that we'll seize this opportunity for a growth partnership with Latin America. Frankly, the Mexico package announced last week by the Treasury Department is encouraging, even though insufficient without some debt relief. Its reasonableness on the Mexican deficit recognizes that from 1982-1985, Mexico has already slashed its federal budget deficit on a comparable basis farther than Gramm-Rudman would cut ours and in three-fifths the time. Tying an increase in future loans to the price of oil and to future Mexican growth also is realistic. I hope it signals a new mood and a new spirit that we're all in this together and that helping Mexico restore growth is not a problem but an opportunity for America.

In particular, I was pleased by the size of the package -- \$12 billion over 18 months, double what anyone expected -- and by the suggestion that interest rate relief may be forthcoming. As I read the proposal, there is no reason why all the new \$6-7 billion of new commercial debt and any restructured debt would have interest rates any higher than the rate at which banks borrow from each other internationally.

Sen. Bradley / Foreign Affairs Test. / Page 4

But let us not forget that debt relief ultimately goes beyond the numbers. Sure, it is encouraging that a modest coordinated cut in interest rates and the level of debt could revive failing Latin American economies. Sure, it is important that we can structure such a relief program to provide meaningful incentives for leaders of Latin nations to design and implement promising reform programs. But the real issue is what we owe one another as human beings, what kind of partnership we seek with our neighbors, and what kind of stake we have in a civilization that shares our democratic values.

100TH CONGRESS
1ST SESSION

S. 1474

To require that any United States Government support for military or paramilitary operations in Angola be openly acknowledged and publicly debated.

IN THE SENATE OF THE UNITED STATES

JULY 8 (legislative day, JUNE 23), 1987

Mr. BRADLEY (for himself, Mr. LEAHY, Mr. SIMON, Mr. DURENBERGER, Mr. HATFIELD, Mr. HARKIN, Mr. BIDEN, Mrs. KASSEBAUM, and Mr. DODD) introduced the following bill; which was read twice and referred to the Committee on Foreign Relations

A BILL

To require that any United States Government support for military or paramilitary operations in Angola be openly acknowledged and publicly debated.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 SECTION 1. DECLARATION THAT ANY SUPPORT FOR MILI-
4 TARY OR PARAMILITARY OPERATIONS IN
5 ANGOLA SHOULD BE OPENLY ACKNOWLEDGED
6 AND PUBLICLY DEBATED.

7 The Congress finds that the United States Government
8 should support military or paramilitary operations in Angola
9 only if the provision of that support is the openly acknowl-

1 edged policy of the United States. It is, therefore, the sense
2 of the Congress that the United States Government should
3 not provide any such support until the President has publicly
4 informed the Congress and the American people that United
5 States Government support for military or paramilitary oper-
6 ations in Angola is important to the national security and the
7 Congress has approved such support.

8 SEC. 2. ENSURING THAT SUPPORT IS OPENLY ACKNOWL-
9 EDGED.

10 (a) ANY SUPPORT MUST BE OPENLY ACKNOWL-
11 EDGED.—During fiscal years 1987 and 1988, a department,
12 agency, official, or other instrumentality of the United States
13 Government may obligate or expend funds—

14 (1) to conduct, directly or indirectly, military or
15 paramilitary operations in Angola, or

16 (2) to provide any financial, material, or other as-
17 sistance, directly or indirectly, to any group engaged in
18 military or paramilitary operations in Angola,

19 only if the use of funds for that purpose is the openly ac-
20 knowledged policy of the United States Government, as de-
21 termined in accordance with subsection (b).

22 (b) PRESIDENTIAL REQUEST AND CONGRESSIONAL
23 APPROVAL.—In order to ensure that any United States Gov-
24 ernment support for military or paramilitary operations in

1 Angola is openly acknowledged, funds may be used for the
2 purposes described in subsection (a) only if—

3 (1) the President determines that United States
4 Government support for military or paramilitary oper-
5 ations in Angola is important to the national security
6 and submits to the Speaker of the House of Represent-
7 atives and the President of the Senate a request that
8 the Congress approve openly acknowledged United
9 States Government support for those operations; and

10 (2) the Congress enacts a joint resolution approv-
11 ing United States Government support for military or
12 paramilitary operations in Angola.

13 Any such support may be provided only to the extent permit-
14 ted by that joint resolution.

15 (c) INTERPRETATION OF LIMITATION.—Nothing in
16 this section should be construed to prohibit the obligation or
17 expenditure of funds for—

18 (1) United States diplomatic activities;

19 (2) activities of the United States Armed Forces
20 which are reported to the Congress pursuant to section
21 4(a) of the War Powers Resolution; or

22 (3) assistance provided through the United Na-
23 tions High Commissioner for Refugees or the Interna-
24 tional Committee of the Red Cross.

4

1 (d) **RELATIONSHIP WITH OTHER LAWS.**—The re-
2 quirements of this section may not be waived under the au-
3 thority of any other provision of law. This section supercedes
4 any provision of law which might otherwise be construed to
5 allow funds to be used for the purposes described in subsec-
6 tion (a).

○

Page Denied